

**REPORT OF THE AUDIT OF THE
HARLAN COUNTY
SHERIFF'S SETTLEMENT - 2006 UNMINED COAL TAXES**

**For The Period
April 2, 2007 Through October 30, 2007**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE HARLAN COUNTY SHERIFF'S SETTLEMENT - 2006 UNMINED COAL TAXES

**For The Period
April 2, 2007 Through October 30, 2007**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2006 Unmined Coal Taxes for Harlan County Sheriff for the period April 2, 2007 through October 30, 2007. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$1,637,943 for the districts for 2006 Unmined Coal Taxes, retaining commissions of \$67,984 to operate the Sheriff's office. The Sheriff distributed taxes of \$1,569,849 to the districts for 2006 Unmined Coal Taxes. Taxes of \$110 are due to the districts from the Sheriff.

Report Comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Joseph A. Grieshop, Harlan County Judge/Executive

Honorable Marvin J. Lipfird, Harlan County Sheriff

Members of the Harlan County Fiscal Court

Independent Auditor's Report

We have audited the Harlan County Sheriff's Settlement - 2006 Unmined Coal Taxes for the period April 2, 2007 through October 30, 2007. This tax settlement is the responsibility of the Harlan County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Harlan County Sheriff's taxes charged, credited, and paid for the period April 2, 2007 through October 30, 2007, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated January 16, 2009 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Joseph A. Grieshop, Harlan County Judge/Executive

Honorable Marvin J. Lipfird, Harlan County Sheriff

Members of the Harlan County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

January 16, 2009

HARLAN COUNTY
MARVIN J. LIPFIRD, SHERIFF
SHERIFF'S SETTLEMENT - 2006 UNMINED COAL TAXES

For The Period April 2, 2007 Through October 30, 2007

| <u>Charges</u> | <u>County Taxes</u> | <u>Special Taxing Districts</u> | <u>School Taxes</u> | <u>State Taxes</u> |
|-------------------------------|---------------------|-------------------------------------|---------------------|--------------------|
| Unmined Coal - 2006 Taxes | \$ 514,972 | \$ 277,293 | \$ 668,258 | \$ 220,456 |
| Penalties | <u>1,335</u> | <u>719</u> | <u>1,733</u> | <u>572</u> |
| Gross Chargeable to Sheriff | <u>516,307</u> | <u>278,012</u> | <u>669,991</u> | <u>221,028</u> |
| <u>Credits</u> | | | | |
| Exonerations | 449 | 241 | 582 | 192 |
| Discounts | 9,512 | 5,122 | 12,343 | 4,072 |
| Delinquents: | | | | |
| Real Estate | <u>4,559</u> | <u>2,455</u> | <u>5,916</u> | <u>1,952</u> |
| Total Credits | <u>14,520</u> | <u>7,818</u> | <u>18,841</u> | <u>6,216</u> |
| Taxes Collected | 501,787 | 270,194 | 651,150 | 214,812 |
| Less: Commissions * | <u>21,326</u> | <u>11,483</u> | <u>26,046</u> | <u>9,129</u> |
| Taxes Due | 480,461 | 258,711 | 625,104 | 205,683 |
| Taxes Paid | <u>480,424</u> | <u>258,690</u> | <u>625,052</u> | <u>205,683</u> |
| Due Districts | | ** | | |
| as of Completion of Fieldwork | <u>\$ 37</u> | <u>\$ 21</u> | <u>\$ 52</u> | <u>\$</u> |

* Commissions:

 4.25% on \$986,793

 4% on 651,150

** Special Taxing Districts:

 Library District \$ 7

 Health District 5

 Extension District 8

 Soil Conservation District 1

Due Districts \$ 21

The accompanying notes are an integral part of this financial statement.

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT

October 30, 2007

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Harlan County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT
October 30, 2007
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Harlan County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of October 30, 2007, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2006. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was April 2, 2007 through October 30, 2007.

Note 4. Interest Income

The Harlan County Sheriff earned \$1,373 as interest income on 2006 Unmined Coal Taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Harlan County Sheriff collected \$1,571 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office. As of January 16, 2009, the Sheriff owed \$211 in 10% add-on fees to his fee account.

Note 6. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After three years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. For the 2006 Unmined Coal Taxes, the Sheriff had \$135 in unrefundable duplicate payments and unexplained receipts and for 2006 Taxes, the Sheriff had \$224 in unrefundable duplicate payments and unexplained receipts. There was a balance of \$4,491 in the account as of January 1, 2007, for surplus money from prior years, which was transferred to the Sheriff from the former Sheriff. The Sheriff had receipts of \$546 and disbursements of \$83 for an ending balance of \$4,954 as of August 30, 2007. Therefore, the Sheriff should send a written report to the Treasury Department.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Joseph A. Grieshop, Harlan County Judge/Executive
Honorable Marvin J. Lipfird, Harlan County Sheriff
Members of the Harlan County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Harlan County Sheriff's Settlement - 2006 Unmined Coal Taxes for the period April 2, 2007 through October 30, 2007, and have issued our report thereon dated January 16, 2009. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Harlan County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Harlan County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Harlan County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comment and recommendation to be a significant deficiency in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiency described above is a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Harlan County Sheriff's Settlement – 2006 Unmined Coal Taxes for the period April 2, 2007 through October 30, 2007, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Harlan County Sheriff's response to the finding identified in our audit is included in the accompanying comment and recommendation. We did not audit the Sheriff's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Harlan County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

January 16, 2009

COMMENT AND RECOMMENDATION

HARLAN COUNTY
MARVIN J. LIPFIRD, SHERIFF
COMMENT AND RECOMMENDATION

For the period April 2, 2007 through October 30, 2007

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

The Sheriff's Office Lacks Adequate Segregation Of Duties

Segregation of duties over accounting functions of cash collection, cash disbursement, and reconciliation of bank records to source documents or implementation of compensating controls when limited by staff size is essential for providing protection from asset misappropriation and/or fraudulent financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

A lack of segregation of duties exists over the cash receipts and cash disbursements functions at the Sheriff's office. One employee's duties included opening mail, recording taxes paid daily, preparing bank deposits, preparing monthly tax reports, writing checks, and reconciling the bank account.

A limited budget places restrictions on the number of employees the Sheriff's office can hire. When faced with limited staff, strong compensating controls should be in place to offset the lack of segregation of duties. A lack of segregation of incompatible duties or strong oversight could result in the misappropriation of assets and/or inaccurate financial reporting to external agencies such as the Department for Local Government, which could occur but go undetected.

To adequately protect against the misappropriation of assets and/or inaccurate financial reporting, the Sheriff should separate the duties of the employee described above. If, due to limited staff size, that is not feasible, strong oversight over those areas should occur and involve an employee not currently performing any of those functions. Additionally, the Sheriff could also provide this oversight. If the Sheriff does implement compensating controls, these should be documented on the appropriate source document.

Sheriff's Response: I've put several measures into place to address these matters.

